

**REBUTTAL COMMENTS OF THE CONTINUITY SHIPPERS ASSOCIATION
SUBMITTED TO THE PRESIDENTIAL COMMISSION
ON THE UNITED STATES POSTAL SERVICE**

The Continuity Shippers Association (CSA) comprises companies who mail small parcels through the United States Postal Service. CSA members use ground (non-priority) service to send goods to our customers' residences. Small parcels weigh generally less than two pounds and are within the current classifications of First Class, Standard Mail, Bound Printed Matter and Media Mail. The products include books, CDs, cosmetics, videos, blank checks, etc. This small parcel market represents over one billion parcels a year with the Postal Service. While many of our comments apply equally to large parcels (e.g. Parcel Post, Parcel Select), our focus is on the small parcel arena.

In these rebuttal comments, CSA replies to several assertions made in the Written Statement of Mike Eskew, the Chairman and CEO of United Parcel Service (UPS).

A. The Postal Service's Mission Includes
 Parcels -- Both Small and Large

UPS asserts that the Postal Service should only support the "physical delivery of letters, advertising and periodicals." Noticeably absent from this list is parcels.

The Postal Service is in the business of delivering physical items. This includes communications (First Class), information such as news (Periodicals) or advertising (Standard), and goods (Parcels). Thus, parcels are and should continue to be part of universal service.

The natural monopoly of a postal system in delivering to every household extends to parcels. The economies of scale in delivering

letters and periodicals apply equally to parcels: When a carrier goes to a mailbox to deliver letters and periodicals, they can and do deliver parcels at the same time.

The natural monopoly, however, only applies to the delivery function. Other activities of the Postal Service such as mail processing and transportation are not subject to similar economies of scale. Because of this and other considerations, like service, a potential customer may not choose the natural monopoly to provide the service. For example, the cost to perform the other postal functions of mail processing and transportation may be so high that it offsets the lower delivery cost. Similarly, if the monopoly firm provides poor service, a person may decide to pay more to obtain better service. This, however, is not the case with CSA members.

The Postal Service has historically delivered parcels. The advent of companies in the private sector to deliver large parcels, primarily business to business (and not business to consumer) is a relatively recent phenomenon. This phenomenon logically arose because the Postal Service either lost its natural price advantage through inefficient behavior often associated with monopolies or did not provide for other needs of mailers beyond price.

Since the natural monopoly is limited to delivery, we support efforts to provide competition in areas such as mail processing and transportation. In fact, CSA members and constituents utilize the worksharing opportunities available to obtain the lowest combined cost to obtain delivery of their products to their customers. We perform part of the mail processing work, and we drop ship deeper into the

Postal Service network because we perform these functions less expensively than the Postal Service.

B. The Private Sector Does Not Serve this Market

UPS seeks to justify its deletion of parcels from the Postal Service's mission by asserting that the private sector is currently meeting the needs of the parcel market. UPS is wrong. Without regard to whether the private sector is actually meeting the needs of large parcel shippers, UPS does not recognize that the small parcel market (particularly the business to consumer market) is currently within the monopoly sphere of the Postal Service. The Postal Service price for the service provided to the small parcel market cannot be competitively challenged by the private sector, especially where the cost of the goods being delivered is less significant.

In general, as the price for the goods being delivered is lower, the relative importance of cost for shipping becomes higher. The converse is also true. Thus, sellers of higher price items may be willing to spend more for shipping.

UPS itself recognizes that the private sector does not serve this market. A representative from a UPS company approached a CSA member this week to see if UPS could perform the mail processing and drop shipping of small parcels for delivery to the customer by the Postal Service. Further, UPS adds significant surcharges when it provides the delivery function to households which effectively prices UPS out of the market. Thus, UPS concedes that it cannot effectively compete with the Postal Service in the delivery function of these small parcels to households.

Parcel delivery has been part of the Postal Service's mission and it should continue to be within the definition of universal service. The Postal Service is the only economically viable option presently available for small parcel mailers to get their goods to their customers' households at a reasonable, affordable cost.

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Respectfully submitted,

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